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BACKGROUND

In September 1984, the Director of General Services standardized the purchase of all mobile radio equipment including mobile radios, handpacks and pagers. Since 1984, the City has purchased about 92 percent of its communications equipment from Motorola. Most of the new equipment the City buys from Motorola--mobile radios, handpack radios, and base station equipment--is delivered to the Department of General Services' Radio Maintenance Shop. After delivery, the Radio Shop tests, tags (for inventory purposes) and distributes the equipment to the departments that ordered it. Nearly all of the equipment is inventoried under the Department of General Services, regardless of which City department ultimately uses it. However, some specialized equipment, such as a closed-captioned TV system for Airport security, is inventoried under the department which uses it.

This audit report focuses on the controls kept over the City's \$3.2 million worth of communications equipment. The recommendations made here also apply to the \$4 million worth of communications equipment the City is buying for the new Communication Center.

SCOPE AND METHODOLOGY

The purpose of our audit was to assess compliance with City Charter and Finance Administrative Manual provisions regarding inventory controls over communications equipment. Our audit methodology included 1) selecting a sample of 70 communications equipment items, 2) identifying which City department or office should have physical custody of these 70 items, and 3) verifying that the identified City department or office did, in fact, have physical possession of the communications equipment items in our sample.

FINDING I

CONTROL OVER THE CITY'S \$3.2 MILLION WORTH OF COMMUNICATIONS EQUIPMENT NEEDS TO BE IMPROVED

As of November 30, 1989, the City of San Jose owned 1,868 pieces of communications equipment worth \$3,153,058. In addition, the City is in the process of purchasing approximately \$4 million of equipment in connection with the new Communications Center. The City Charter and Finance Administrative Manual fix responsibility for establishing and maintaining both accounting control and physical custody of the equipment. Our review of the City's communications equipment inventory revealed that:

- ◆ City staff were not initially able to locate 13 of 70 pieces of equipment we selected for testing.
- ◆ The Communications Division had not conducted the required annual physical inventories of communications equipment for two years.
- ◆ City departments were not following Finance Administrative Manual required procedures regarding 1) communications equipment that is transferred from one department to another, 2) the reporting of lost or stolen equipment, and 3) the maintenance of current equipment location information on City-wide computerized inventory records.
- ◆ The current method of tracking new or replaced equipment was inefficient and ineffective.

By improving and annually verifying the inventory records for its \$3.2 million worth of communications equipment, the City can reduce its exposure to theft and unreported losses.

The City's Communications Equipment

According to Finance Department records, as of November 30, 1989, the City of San Jose owned 1,868 pieces of communications equipment worth \$3,153,058. In addition, the City of San Jose has contracted to purchase about \$4 million worth of radio communications equipment for the City's new Communications Center. The City plans to open the Center in October 1990.

City Charter And Finance Administrative Manual Requirements

Section 806 of the City Charter assigns to the Director of Finance the duty to “... *prepare and maintain a current inventory of all materials and supplies and an inventory of general assets belonging to the City...*” The Finance Administrative Manual defines equipment, as “... *City personal property, including rolling stock, that 1) has a value of \$500 or more, 2) is readily movable (not permanently attached to a building or structure), and 3) possesses a useful life extending more than one year.*”

The City's Finance Administrative Manual also provides the “... *policy and procedure guidelines for the processing of equipment transactions for the purposes of maintaining a perpetual equipment inventory and fixing responsibility for its custody.*” (See APPENDIX B) The City Property Control Officer, an accountant in the Special Accounting Division of the Finance Department, is

responsible for the accounting of all transactions involving the acquisition, transfer and disposal of equipment. Some of his/her duties are:

1. managing an equipment inventory control system;
2. issuing equipment inventory tags to Property Clerks for all received equipment;
3. scheduling annual physical inventories (emphasis added); and
4. holding Property Clerks accountable for missing equipment until a department head releases them of their responsibility.

Each department head is responsible for the equipment inventory in his/her department. The department head may designate one or more employees to perform the function of Property Clerk. Among the duties of each department Property Clerk are the following:

1. maintaining on-line computerized equipment inventory records that identify the current physical location of equipment;
2. affixing inventory tags to equipment;
3. taking any physical inventories the City Property Control Officer requires;
4. reporting to the department head instances of vandalized, stolen or missing equipment (emphasis added); and
5. initiating *Requests For Change Of Equipment Status* (Form 144-30), and *Equipment Report* (Form 140-40aN), whenever appropriate.

There is one exception to the above procedures. That exception relates to the taking of the physical inventory for communications equipment. The Department of General Services is responsible for taking

the physical inventory for most of the City's communications equipment. General Services has this responsibility even though other City departments or offices may have actual physical possession of the equipment.

Audit Test And Results

We selected a judgment sample of 70 pieces of communications equipment the City purchased from 1984 to 1989 and reviewed Department of General Services records in order to identify the physical location of the equipment within the City. By reviewing maintenance records in the City's Radio Maintenance Shop (Radio Shop), we were able to identify which City department or office should be using each of the 70 pieces of equipment in our sample. According to Radio Shop records, the following departments or offices should have had physical custody of the 70 communications items in our sample.

City Department/ Office Recorded As Having Physical Custody Of Selected Communications <u>Equipment Items</u>	Number of Communications Equipment Items Selected For <u>Testing</u>
Police	15
Fire	13
Water Pollution Control	9
Airport	6
General Services	6
Recreation, Parks and Community Services	5
Public Works	5
Neighborhood Maintenance	4
Traffic Operations	3
Convention/Cultural Facilities	2
Library	1
Office of the City Manager	<u>1</u>
TOTAL	<u>70</u>

We requested that the above departments or offices of record locate the communications equipment items assigned to them so that we could physically inspect the equipment. The results of our audit procedure was that:

- the departments or offices of record were unable to locate 13 of the 70 communications equipment items in our sample; and
- contrary to Finance Administration Manual requirements, one radio that was stolen in November 1985 had not been removed from the City-wide equipment inventory.¹

We subsequently reported to General Services those pieces of equipment the departments or offices were unable to find. General Services staff then

¹ General Services reported that they will remove the stolen radio from the City-wide inventory.

attempted to locate the missing equipment. The results of General Services' search were that:

- of the 13 communications equipment items, 9 were subsequently located; and
- of the 4 communications equipment items not located; 1 radio worth \$1,600 could not be accounted for and 3 radios that were stolen or lost during the previous year were not reported as such in spite of Finance Administrative Manual requirements to do so.

Noncompliance With Finance Administrative Manual Requirements

In addition to our search for communications equipment items, we also reviewed procedures for compliance with the City's Finance Administrative Manual requirement regarding these equipment items. The results of our review showed that City departments or offices are not complying with several prescribed procedures. These instances of noncompliance are summarized in the following table.

TABLE I

SUMMARY OF OBSERVED NONCOMPLIANCES WITH FINANCE ADMINISTRATIVE MANUAL REQUIREMENTS REGARDING COMMUNICATIONS EQUIPMENT

Finance Administrative Manual Section	<u>Requirements</u>	<u>Observed Noncompliance</u>
1.0.7.1(4)	<i>City Property Control Officer . . . duties are to . . . schedule annual physical inventories.</i>	The City's communications equipment had not been inventoried since October 1987.

Finance Administrative Manual Section	Requirements	Observed Noncompliance
<p>1.0.8.2</p>	<p>Taking Equipment Inventory. Each Property Clerk, usually with the help of another employee, makes a thorough physical check of the location code areas for which they are responsible to determine that all equipment in these areas are listed and accurately described on the inventory listing.</p> <p>The physical inventory must be taken by locating the equipment first and then checking it off on the inventory listing. This will assure that all equipment in each location code is accounted for.</p>	<p>A <u>physical</u> inventory of communications equipment has never been taken. Instead, the Communications Property Clerk merely sent a listing of communications equipment to each department's Property Clerk for verification.</p>
<p>1.0.9.2.1</p>	<p>When an equipment item is to be transferred to another department: Transferring Department (<i>Property Clerk</i>) Complete Form 144-30; Arrange for transfer; Forward Form 144-30 to department receiving equipment; and</p>	<p>Most communications equipment is inventoried under the Department of General Services regardless of which department uses the equipment and has physical custody of it. Thus, the City Property Control Office's Equipment Inventory Control File does not reflect where most communications equipment is <u>physically</u> located.</p>

<u>Finance Administrative Manual Section</u>	<u>Requirements</u>	<u>Observed Noncompliance</u>
	<p>Note transfer on Inventory Listing.</p> <p><u>Receiving Department</u> <i>(Property Clerk)</i></p> <p>Verify equipment description, and inventory number; and</p> <p>Note equipment receipts on Inventory Listing.</p> <p><u>Finance Department</u> <i>(City Property Control Officer)</i></p> <p>Update Equipment Inventory Control File</p>	
1.0.6.4 & 1.07.2	<p>Whenever equipment is damaged or missing:</p> <p><i>Department Property Clerk</i></p> <p>Notify City Property Control Office</p> <p>Report vandalized, stolen or missing equipment.</p>	<p>In our sample of 70 communications equipment items, we identified 4 radios that were missing or stolen. The departments that had custody of these radios did not report their loss to the City Property Control Offices as required.</p>
1.07.02	<p><i>Department Property Clerk</i></p> <p>Maintain current equipment location on on-line computerized departmental equipment inventory records.</p>	<p>Approximately 90 percent of communications equipment items are listed in the City-wide computerized inventory without a location (department) code.</p>

The above observed noncompliances with the Finance Administrative Manual not only expose the City to property losses but cause the process of taking a physical inventory for communications equipment to be unnecessarily burdensome. For example, we noted during our audit that the only way to determine where the 70 communications equipment items in our sample were physically located was to review Radio Shop maintenance records. Similarly, in order to take a physical inventory of all of the City's communications equipment, it would be necessary to review Radio Shop maintenance records for all 1,868 pieces of equipment. This would be an extremely burdensome task given that some of these maintenance records date back as far as the 1970's. In fact, we estimate it would take the equivalent of a full-time staff person to maintain the records for and physically inspect the City's communications equipment inventory because:

- About 90 percent of the time, the City-wide computerized inventory does not identify which location (department) should have the communications equipment;
- While the Radio Shop's handwritten maintenance records do indicate which department received the equipment after it was inspected and tested, these records do not normally specify which division received the equipment;
- Until 1989, the staff person who picked up the equipment for a department was not required to sign out for it;
- When the Radio Shop replaces a defective radio with a spare radio, the only record that is made of the replacement is under the equipment number of the defective radio and not the equipment number of the spare radio;
- The Radio Shop's handwritten maintenance records are kept in file cabinets. This system of maintaining and retrieving location and other

information on communications equipment can be made more efficient through computerization; and

- The time requirement for the Communications Property Clerk to physically inspect 1,868 pieces of equipment would prevent the employee from performing his/her other responsibilities.

Improvements Are Needed

In our opinion, the City's current methods of maintaining control over its communications equipment is inefficient, ineffective, and not in compliance with Finance Administrative Manual requirements. The City can improve those controls by:

- Updating and keeping current its City-wide computerized inventory to indicate which department has physical custody of each piece of equipment;
- Making each department responsible for taking annual physical inventories of communications equipment;
- Having the Radio Shop assign spare radios to those departments that will ultimately use them, as a means of efficiently tracking radio replacements; and
- Providing the Radio Shop with a personal computer to automate communications equipment information currently stored in file cabinets.

By implementing the above procedures, the City will be able to reduce its exposure to theft and loss for its \$3.2 million worth of communications equipment.

CONCLUSION

Our review of the City's communication equipment inventory revealed that:

- City staff were not able initially to locate 13 of 70 pieces of equipment we selected for testing;
- the Communications Division has not conducted the required annual physical inventories of communications equipment for two years;
- City departments are not following Finance Administrative Manual required procedures regarding 1) communications equipment that is transferred from one department to another, 2) the reporting of lost or stolen equipment, and 3) maintaining current equipment location on on-line City-wide computerized inventory records; and
- the current method of tracking new or replaced equipment is inefficient and ineffective.

The City will soon own approximately \$8 million worth of communications equipment. By improving and annually verifying its database for communications equipment, the City can reduce its exposure to theft and unreported losses.

RECOMMENDATIONS

We recommend that the General Services Department:

Recommendation #1:

Coordinate a physical inventory of the City's communications equipment. (Priority 2)

Recommendation #2:

Complete a Request for Change of Equipment Status (Form 144-30) to record the assignment of communications equipment to the user departments. (Priority 2)

Recommendation #3:

Formally assign spare radios to those departments that will ultimately use them by completing a Request for Change of Equipment Status (Form 144-30). (Priority 3)

Recommendation #4:

Develop a computerized database of communications equipment maintenance records to replace the current manual recordkeeping system. (Priority 3)

We further recommend that the Finance Department:

Recommendation #5:

Update the City-wide asset inventory records to reflect the physical location of each piece of communications equipment and require each user department to include communications equipment in its regular annual physical inventory. (Priority 2)

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